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2004
STRATEGIC
BUSINESS
PLAN

JULY 1, 2003
THROUGH
JUNE 30, 2004



*Our Mission: Montana's insurance carrier
of choice and industry leader in service.*

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TABLE OF CONTENTS

From the President	1
Executive Summary	2-3
Strategic Framework – Mission, Vision and Guiding Principles	4-5
Organizational Profile	6
Strategic Corporate Level Key Success Measures	7
Strategic Initiatives	8
Financial Projections	9
Board of Directors	10

to here.

**We've gone
from here.**



Montana State Fund has gone from being known as the insurer of last resort to the single largest workers' compensation carrier in Montana.

How did we do it? Hard work. We offer our fellow Montanans proven safety programs, competitive rates and flawless customer service.

And our hard work has paid off. We have a retention level that exceeds 90%. To find out how Montana's carrier of choice can work for you, or to find a Montana State Fund agent, log onto our web site or call 800-332-6102.



MONTANA
STATEFUND
montanastatefund.com



We've protected Montana businesses through a depression, two world wars and 81 Cat-Griz games.

Montana State Fund is a Montana company that offers you effective safety programs, outstanding customer service and competitive rates. We know the territory because we've been providing coverage since 1915 to all types of businesses right here in Big Sky country. And best of all, we'll be here when you need us. Protect your business with Montana's insurance carrier of choice. For more information, contact your independent insurance agent, call 1-800-332-6102 or visit montanastatefund.com.



From the President . . .



By any relevant measure, this is a challenging time for workers' compensation insurers. A combination of rising medical costs, decreased investment income, higher reinsurance rates, and increases in claim losses has resulted in declining profits and upward pressure on pricing. In this type of business environment, a competitive state fund must be a stabilizing force in the marketplace. It is of paramount importance to the 40,000+ businesses in Montana that there is a reliable, stable workers' compensation system in place for this essential and mandatory coverage. We are that organization. We understand the critical role we play in the economic and social well being of the citizens of our state. It is a responsibility that we willingly accept, and it's what separates us from the other insurance carriers that operate in Montana.

By focusing our organizations' energy towards a common purpose, we can produce powerful results. At Montana State Fund, we attribute our ongoing success to our strategic planning process. Each and every year we undergo a comprehensive organizational review, looking for improvements and new ways in which we can provide services to our customers. This process is at the very core of who we are as an organization. We know what we want our future to be, and we've identified the steps to get us there. It is incumbent upon any organization to face their challenges with a clear understanding of the tasks at hand, develop a blueprint for improvement, and follow through with well-planned and measurable actions. Montana State Fund consists of 260 dedicated individuals, who work together as a team to achieve positive results.

We recognize that service is only as good as the last customer contact. Through this plan, we will be directing our energies to improve our systems and services throughout the organization, creating an environment in which we maintain consistency in handling policy matters, respond to questions and requests in a timely manner, with a courteous and knowledgeable front line staff that's easily accessible.

Our FY2004 strategic plan builds upon the solid foundation of our previous plans. It identifies areas for improvements in both efficiencies and service, with a concerted effort in reducing operational costs wherever possible. By improving our financial strength and stability, we will continue to deliver the highest quality workers' compensation insurance at competitive prices. Montana State Fund is a dynamic organization that is constantly fine tuning itself. Our vision as an organization is that we are committed to the health and economic prosperity of Montana. We accomplish this by providing superior service and leadership, through caring individuals working in an environment of teamwork, creativity and trust. Moving forward, this vision will be our guide.

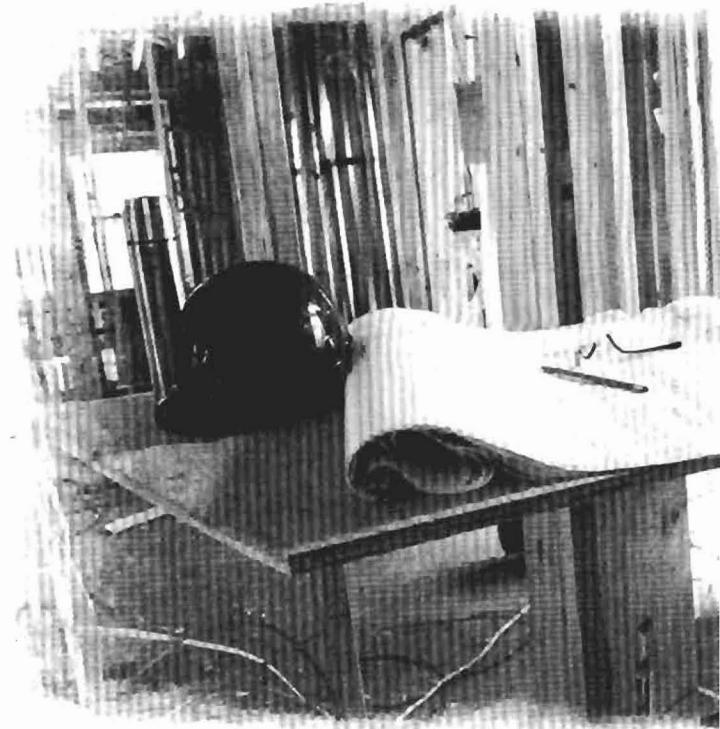
*Laurence Hubbard
President and Chief Executive Officer*

Executive Summary

The Montana State Fund operates in a dynamic and competitive environment. Our success in the past and our continued progress in the future are dependent upon our ability to anticipate and respond rapidly to service expectations and industry change. We have weathered the forces of change by relying on four basic principles as our foundation. They are:

- **Strength**-MSF now maintains a strong financial position to ensure continued long-term stability and financial solvency based on actuarial sound rates and reserves.
- **Competition**-MSF furnishes and markets high-quality insurance services and products at appropriate and competitive prices. By doing so, the premiums charged are more competitive for all Montana businesses, since we provide an option for any employer to purchase their mandatory workers' compensation coverage.
- **Commitment**-MSF operates in a customer-focused, team-oriented, high performance culture that challenges and empowers our employees to deliver the highest quality insurance products to Montana businesses at the lowest possible cost consistent with sound insurance principles.
- **Service**-MSF provides coverage to nearly 26,000 businesses of all sizes. Our team-based account structures create customer loyalty by providing superior service to our policyholders and injured employees. By working with independent agents, we maintain a partnership with stakeholders in the true spirit of cooperation.

The strategic priorities identified in this plan will build upon the foundation we have laid over the past decade. We are focusing on operational improvements that will boost our efficiency and enhance customer service. These initiatives will serve to strengthen our operating structure, and will position our organization for the challenges that lie ahead.



Our five strategic initiatives for fiscal year 2004 are:

- 1. Customer Service and Ease of Doing Business:** Deliver superior service to our internal/external customers through continual refinement of operations services. This includes focusing on effective claims management and responding to customer wants, needs and expectations.
- 2. Organizational Efficiencies:** Provide superior customer service delivery and cost containment by improving operational workflows and processes, and the continuous refinement of MSF customer-oriented structure.
- 3. Internal/External Communications:** Expand upon our long-term corporate communications philosophy so that the MSF vision is reflected in all of our communications and promotional materials while ensuring that the needs, wants and expectations of MSF customers and employees are identified and addressed.
- 4. Information Technology:** Provide additional business functionality, create efficiencies, and reduce cost of business for our customers and ourselves. Replace/renovate proprietary systems and add new systems with "Value Edge" software and hardware packages within a defined architecture.
- 5. Montana's Workers' Compensation System:** Support Montana's long-term economic prosperity by proactively contributing through education to create a workers' compensation environment that meets the needs of Montana businesses and their employees.

Strategic Framework

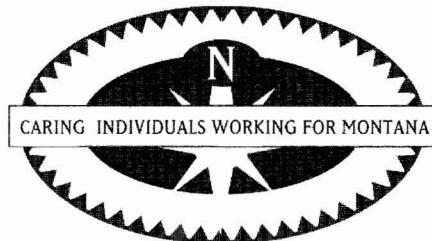
Mission



**Montana State Fund is Montana's insurance carrier
of choice and industry leader in service.**

Vision

Montana State Fund is committed to the **health** and **economic prosperity** of Montana through **superior service, leadership** and **caring** individuals working in an environment of **teamwork, creativity** and **trust**.



Guiding Principles

- Integrity and Ethical Conduct**

While providing superior service to our policyholders, their injured employees, and insurance producers, we will conduct ourselves with integrity and in an ethical manner.

- Customer Focus**

Enhance and maintain a partnership with stakeholders in the true spirit of cooperation. Enter into strategic partnerships when they can improve service and products to our customers.

- **Strong Financial Position**

Maintain adequate rate levels, financial strength and stability. A strong financial position ensures continued long-term stability and financial solvency based on actuarial sound rates and reserves.

- **Offer Quality & Competitive Insurance Service and Products**

Deliver high quality insurance products to Montana businesses at the lowest possible cost consistent with sound insurance principles. Foster and support a competitive insurance market in Montana. In doing so, MSF basically functions as a private insurer asserting its competitiveness within the framework of maintaining a healthy financial position, and competitively priced products based on actuarially sound rates.

- **Employee Growth and Development**

Support a performance driven culture and a work environment that is conducive to the continuing development and growth of our employees. Foster a customer-focused, team-oriented, high-performance environment that rewards, satisfies, empowers and challenges our employees.

Organizational Profile

The State of Montana originally established the predecessor to the Montana State Fund in 1915 to function as a competitive workers' compensation insurance carrier. Since then, Montana State Fund has assumed several different forms, with its current structure resulting from actions taken in 1990. At that time, the legislature separated the workers' compensation regulatory functions (which were established in the Montana Department of Labor and Industry) from the insurance responsibilities (which were vested in a separate new Montana State Fund). A seven-member board of directors appointed by the Governor governs the Montana State Fund. The board appoints the President/CEO.



Montana State Fund is a self-sufficient, non-profit workers' compensation insurance carrier. Our statutory purpose is to be a competitive insurance carrier, provide an available market and guarantee coverage to all employers in Montana. We receive no taxpayer or general fund money, operating solely on the premiums paid by insured employers and revenues from investments. We function like a private insurance carrier in a competitive marketplace and, as provided in law, perform all functions and exercises all the powers of a private insurance carrier that are necessary, appropriate or convenient for the administration of the Montana State Fund.

Montana State Fund has also gone through numerous changes since our creation in 1990. We have transitioned from a traditional organizational structure to one that is adapted to the needs of the information age. A comprehensive corporate redesign in 2000 enhanced our operational structure with the addition of multifunctional teams to service specific groups of employers and their injured employees. It also resulted in a flatter management structure, increased empowerment of employees, and a larger safety and medical claim management staff that works more closely with policyholders and injured employees. We have improved efficiencies in a number of operational areas and have made a major investment in our safety management services, working with Montana employers to try and prevent accidents from occurring. As Montana's economic structure undergoes another evolutionary change, we continue to fill our critical role as the guaranteed market.

Strategic Key Success Measures

The following objectives are the corporate level key success measures that will be used to measure strategic and financial success for fiscal year 2004. They are measurable in terms of time, quality, quantity, and/or dollars.



FY 2004 Strategic Success Measures

1. Achieve targeted fiscal year **Net Operating Income** before dividend for FY 2004 of **\$8.0** million.
2. Focus on Montana State Fund's "strategic initiatives" by meeting our measurable goals.
3. Maximize policyholder satisfaction by achieving a level of **Business Retention** of **91.5%**.
4. Maintain an **Expense Ratio** of **31% or less**.
5. Achieve 4-year accident year **Combined Ratio** target of **117.8%**.



Strategic Initiatives

Strategic initiatives are large multi-departmental projects that represent how MSF will achieve our strategic goals. Each initiative directly correlates to elements of our vision and moves the organization forward in achieving our mission.

 Strategic Initiative	Vision Elements Addressed
1. Customer Service and Ease of Doing Business: Deliver superior service to our internal/external customers through continual refinement of operations services that include focusing on effective claims management and responding to customer wants, needs and expectations.	Superior Service Montana's Health and Economic Prosperity Leadership Caring Individuals Teamwork Creativity
2. Organizational Efficiencies: Provide superior customer service delivery and cost containment by improving operational workflows and processes, and the continuous refinement of MSF customer oriented structure.	Superior Service Leadership Teamwork Creativity
3. Internal/External Communications: Expand upon our long-term corporate communications philosophy so that the MSF vision is reflected in all of our communications and promotional materials while ensuring that the needs, wants and expectations of MSF customers and employees are identified and addressed.	Superior Service Creativity Leadership
4. Information Technology: Provide additional business functionality, create efficiencies, and reduce cost of business for our customers and ourselves. Replace/renovate proprietary systems and add new systems with "Value Edge" software and hardware packages within a defined architecture.	Superior Service Leadership Teamwork Creativity
5. Montana's Workers' Compensation System: Support Montana's long-term economic prosperity by proactively contributing through education to create a workers' compensation environment that meets the needs of Montana businesses and their employees.	Montana's Health and Economic Prosperity Leadership

Financial Projections

PROJECTED RESULTS OF OPERATIONS MONTANA STATE FUND

Statutory Basis

Operating Statement

	(numbers expressed in thousands)				
	Actual	Best Estimate			
	2002	2003	2004	2005	2006
Premium Income	\$92,972	\$111,000	\$126,004	\$129,342	\$133,050
Investment & Other Income	33,430	28,414	28,947	29,528	31,314
Total Losses and Expenses	(114,608)	(150,950)	(146,884)	(146,363)	(151,138)
Policyholder Dividend	(4,001)	(3,000)	TBD	TBD	TBD
Net Income	\$7,793	(\$14,536)	\$8,067	\$12,507	\$13,226

TBD - Future dividends to be determined by the Board of Directors.

Premium to Surplus Ratio (X:1) (a)	0.57	0.76	0.83	0.79	0.75
Loss Reserve to Surplus Ratio (X:1) (a)	2.13	2.63	2.64	2.60	2.56
FY Combined Ratio (Loss + LAE + UW)	123.3%	136.0%	116.57%	113.16%	113.59%
Dividend to Premium Ratio	4.3%	2.7%	TBD	TBD	TBD

Balance Sheet

Total Assets	\$574,924	\$599,109	\$641,960	\$681,815	\$721,332
Unpaid Losses and Loss Adjustment Expenses	\$346,400	\$385,000	\$399,972	\$427,495	\$453,924
Other Liabilities	70,025	70,555	90,367	90,193	90,055
Total Liabilities	\$416,425	\$455,555	\$490,339	\$517,688	\$543,979
Surplus (b)	\$158,499	\$143,554	\$151,621	\$164,127	\$177,353
Total Liabilities and Surplus	\$574,924	\$599,109	\$641,960	\$681,815	\$721,332

(a) Ratios prior to any dividend declared by the Board of Directors.

(b) FY02 Surplus amounts include funds from the Old Fund in excess of the 10% loss contingency as required in 39-71-2352 (5), MCA.

Montana State Fund Board of Directors

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